Post-2006 Conservation Work Group
Alternative Budget Recommendation
January 20, 2005

The Work Group members that have signed on to this letter want to thank BPA for convening the Work Group. BPA staff was excellent in helping us develop a Post-2006 Conservation Proposal. We believe the Group also did a great job of putting together the overall recommendations. However, many participants of the Conservation Work Group have concerns about the budget portion of the recommendation; and believe that the proposed $81.6 Million conservation budget, as well as the $80 Million budget proposed by BPA staff, is insufficient to meet Bonneville's target of 56 aMW per year.

The undersigned participated in the Conservation Workgroup's effort to develop Bonneville's post-2006 conservation program.[1] We are generally supportive of the Workgroup's final proposals, but note that there is not consensus in the Workgroup or among us at this time on several key issues. Those include the issues relating to cost-effectiveness, decrementing, and the allocation of funding between the various mechanisms (e.g., rate discount, bilateral contracts, third-party contracts, etc.) BPA will use to acquire conservation. This letter, therefore, will not address those issues. We focus here on our biggest concern; the linchpin for success of the entire conservation effort: sufficient funding.

We applaud BPA's decision to meet its share of the Council's conservation target -- that was the right thing to do. However, we believe the proposed budget puts us at significant risk of not meeting the Council's target. The Council's plan is the least cost strategy for the region, and failure to follow that plan will in the end force our ratepayers to needlessly pay more for their power. The Council estimates that their stepped-up level of conservation acquisition will save the region's ratepayers between $2 and $2.5 Billion over the next 20 years. We do not believe the Administrator should adopt a budget that knowingly puts our ratepayers at risk of paying unnecessarily higher power bills.

The Work Group's recommendation is to acquire the 56 aMW of conservation, which is about 25% more than the 44 aMW we currently acquire, with basically the same budget we have today. We believe this is unrealistic. To achieve the Council's target of 56 aMW with an $80 Million budget, we would have to acquire the conservation at an overall rate of $1.3 Million per aMW. This has not been done before on a sustainable basis. (While it is true that the average utility cost of savings in 1998, 1999 & 2001 was $1.3 million/aMW, the results were anomalous. In those years about half of the savings came from low cost CFL programs. In addition, the region did not spend any money on evaluation, research and demonstration, or other infrastructure. While individual separate programs have been done for this low cost, no sustained, comprehensive conservation program has come close to achieving this low of an acquisition cost.

[1] Given the time constraints of this process, there was insufficient time to process this position within many utilities. As a result, some utilities that support this position were not able to sign on.

The 10 year historic average cost of conservation has been about $2.2 Million per aMW. Over the past 3 years, BPA has been able to acquire conservation at about $1.9 -$2.0 Million per aMW, but this figure did not include all the administration costs. As well, the trend is for increasing acquisition costs, not decreasing costs.

While the Work Group's proposal uses an overly optimistic cost of $1.3 Million per aMW; we believe that we should use a figure closer to a more realistic historically verifiable acquisition cost of about $1.9 Million per aMW as recommended by Tom Eckman, Charlie Grist and Stan Price. While we believe we may be able to make modest reductions in cost; we do not believe we can cuts costs by one-third, to get them down to the $1.3 Million per aMW that is used in the proposed budget. If we were to use a more realistic acquisition cost of $1.9 Million per aMW the budget necessary to achieve the Council's target of 56 aMW would be $106 Million per year.

We believe a budget of less than this amount would not fully fund the conservation program, and one of two things will happen: either utilities will make up the difference and we achieve the target[2], or little additional utility money is added and we fail to achieve the target. Without make-up funding by utilities, we estimate that the proposed budget of $80 Million would only acquire about 42 aMW. Since the overall track record of utilities following through on making-up conservation funding is poor[3], it is fair to say that the most likely outcome is that we will merely fail to meet the conservation target. The consequence of under performing and not achieving the target is that we end up buying more expensive, and more risky, market power. This will cost our customers more, and it is not the least risky or least cost plan.

We should note that the program design that the Workgroup agreed upon has incentives in it for utilities to capture conservation at the lowest cost. Thus, increasing the initial budget will not necessarily increase its ultimate cost if the programs can succeed with lower amounts. If it should turn out to be the case that the MW targets can be reached using less money, the unused funds will reduce utilities' rates. But shortchanging the program out of the box will only make failure to meet BPA's target more likely--and as we all know, it is very difficult to later play catch up, both programmatically and politically.

Recommending a budget increase for conservation is not an easy thing to ask from ratepayers without assurances that the money will be spent well. The undersigned utilities have demonstrated that they can deliver savings efficiently. It is important to

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[2] And this would create a cost shift from BPA to the utilities of about $0.6M per aMW, or $26M per year.

[3] Apparently, in 1996 when BPA deleted nearly all of its conservation funding from its rates, about 96 utilities signed letters stating that they would make-up the difference with their own budget dollars. In reality less than a hand full actually did. The result was a dramatic decline in the acquisition of conservation. To deal with the problem BPA had to create a regional process that figure out a fix to the lack of utility make-up funding for conservation. The solution was the Conservation and Renewables Discount Program (C&RD) that established a minimum threshold level of funding, and a revitalized bilateral program (Con-Aug).

them that if Bonneville agrees to our request that the increase in conservation funding be directed solely into programs in which all utilities actively participate.

In conclusion, we believe that it is unrealistic to assume that we can achieve the Council's conservation target and stay on the least cost path with the proposed budget. The Administrator should not rely on overly optimistic cost assumptions that have never before been sustainably achieved, nor count on the utilities to make-up one-third of the conservation budget. The Administrator should base his conservation budget on a realistic, historically based, cost assumption that will ensure that he does indeed keep his commitment to achieve BPA's share of the Council's conservation target. In the end, failure to do so only hurts our ratepayers by making them pay more for power!

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